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C O N F I D E N T I A L SECTION 01 OF 02 MOSCOW 001763

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SUBJECT: MEDVEDEV IN BAKU: NAGORNO-KARABAKH, ENERGY

Classified By: A/Pol M/C David Kostelancik for reasons 1.4(b) and (d)

11. (C) Summary. In the wake of President Medvedev's visit to Baku June 29, Russia is optimistic that the Nagorno-Karabakh conflict can be resolved in the near future.

To effect that, Moscow plans no actions outside of the Minsk Group Process, which is organizing a meeting between the Armenian and Azerbaijan Presidents July 17 in Moscow to resolve the differences on the two principles the sides have yet to agree upon. Russia agreed the SOCAR-Gazprom contract covered a "symbolic" volume of natural gas deliveries, but would (a) relieve Gazprom of delivering gas to Dagestan, (b) provide Russia with access to the Shah-Deniz gas production, and (c) let Gazprom develop gas fields on the Arctic shelf at a slower pace, but using its own means. SOCAR agreed to put Gazprom in the first group of priority buyers, along with the Shah Deniz consortium member countries. End Summary

Nagorno-Karabakh

12. (C) In a meeting with visiting Under Secretary Burns July 7, DFM Karasin was "unusually optimistic" about the chances to resolve Nagorno-Karabakh. He welcomed the Minsk Group's proposal for a U.S.-Russia-France statement at the G8, and thought there was a good possibility that Sargsian and Aliyev could reach agreement on the principles at their meeting on the 17th, which would be a very important achievement. Karasin added that the Turkey-Armenia new "love affair" had Baku nervous, but said it was good and we should welcome it. He said he would be interested in any new ideas on how to proceed.

13. (C) MFA 4th CIS Director for Azerbaijan Andrei Krutko told us July 7 that Russia saw "great prospects" for a breakthrough in settling the Nagorno-Karabakh conflict. At the press conference following the four-hour meeting between President Medvedev and President Aliyev in Baku June 29, Medvedev said that there was "every chance" that the conflict could be resolved "in fairly short order." He added that Russia stood ready to "do everything it could, along with other nations" to settle the conflict "as efficiently as possible," noting that there was no place in the issue for "petty jealousy" among the mediators.

14. (C) Krutko, who accompanied Medvedev to Baku but did not take part in the one-on-one discussion of Nagorno-Karabakh, echoed Medvedev's appeal that the parties resolve the conflict "within a strong international legal framework" and "without trying to invent something completely different," saying Russia had no plans outside of the Minsk Group co-chairs' plan for pursuing the conflict settlement. Moscow placed high hopes on Azerbaijani President Aliyev and Armenian President Sargsian's July 17 meeting in Moscow at a

horse-racing derby on the margins of the CIS informal summit
July 18.

15. (C) Krutko said the July 17 talks would focus on the two Madrid Principles the sides have yet to agree upon, the question of the referendum and the Lachin corridor. Krutko described the format of the July 17 meeting as a one-on-one between Sargsian and Aliyev, followed by a "2 plus 1" with Medvedev joining, after which the Foreign Ministers and at the end the Minsk Group co-chairs would be included.

16. (C) Krutko said Medvedev agreed to visit Baku at the June 4-6 St. Petersburg Economic Forum, and called the trip the "routine" follow-on to Aliyev's April 17-18 visit to Moscow.

Energy

17. (C) Krutko agreed that the gas deal signed by Russian and Azerbaijan energy companies Gazprom and SOCAR was largely symbolic in light of the small volume contracted, only 500 million cubic meters (mcm). However, he underscored that it would relieve Gazprom of delivering gas to Dagestan as an immediate benefit to Russia, and in the mid-term provide Russia with access to the Shah-Deniz gas production. In addition, the budding gas cooperation allowed Gazprom in the long-term to develop gas fields on the Arctic shelf at a slower pace (10-15 years) but using its own means, rather than being forced to rely on currently elusive Western funding.

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18. (C) Krutko said that while Gazprom had not received the "right to first refusal" of Shah Deniz gas, SOCAR had agreed to put Gazprom in the first group of priority buyers, along with the Shah Deniz consortium member countries. Given Gazprom's willingness to outbid Turkey for Azeri gas, Krutko felt certain that Russia would receive regular and increasing supplies of Azeri gas, possibly up to the connecting pipeline's limit of 6 billion cubic meters per year.

19. (C) Krutko said the USD 350/thousand cubic meter (tcm) price quoted in the press was incorrect, as the pricing would follow the European price (less transit and operating charges), which was indexed to oil prices with a nine-month lag. USD 350/tcm would be the price if Russia were to receive the gas now; however, it was contracted for delivery starting January 2010, for which a lower price would result.
BEYRLE